Office of the State Auditor

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November 28, 2000

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
College of Charleston
Charleston, South Carolina

This report on the review of the College of Charleston's internal control for the year ended June 30, 2000, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

Tom Wagner

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

COLLEGE OF CHARLESTON

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

JUNE 30, 2000

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Mr. Thomas L Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

In planning and performing our audit of the basic financial statements of the College of Charleston (College), Charleston, South Carolina, for the year ended June 30, 2000, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters as detailed on page 2 involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters on internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe the conditions noted on page 2 to be material weaknesses.

This report is intended solely for the information and use of the Governor of the State of South Carolina and the board of trustees and management of the College and is not intended to be and should not be used by anyone other than these specified parties.

Rogers & Laban, PA

October 12, 2000

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MANAGEMENT LETTER COMMENTS

A. MATERIAL REPORTABLE CONDITIONS

PAYROLL RELATED LIABILITY ACCOUNTS NOT RECONCILED

As part of our review of the various general ledger liability account balances, we reviewed documentation to support these balances which disclosed an overstatement of payroll related liabilities of approximately $62,000 attributable to fringe benefit accruals and related withholdings. Adjusting entries were required to be made to correct the various account balances. We also noted other general ledger accounts that reflect minimal or no activity that possibly should be adjusted. A similar finding was included in the management letter comments for the two prior years.

The deficiency resulted from personnel in the human resources and accounting departments not reconciling the balances in the various general ledger accounts for employee benefits to supporting documentation.

We recommend responsible staff persons in the human resources and accounting departments, as applicable, be required to reconcile each of the College's detailed general ledger accounts to supporting documentation monthly and immediately follow up on all balances for which documentation to support the general ledger balance is not readily available. As applicable, adjusting entries should be timely recorded.

CASH AND PAYROLL LIABILITY RECONCILIATIONS

The College has been reconciling its cash balances to memo maintained control accounts instead of its general ledger detail accounts. The reconciliations to the memo control accounts identified a difference for which the College recorded a journal entry to increase cash by $151,391 with the offsetting credit being to a payroll liability account. As a result, the cash and payroll liability balances were incorrect for several months. An adjusting entry had to be made as of year end to remove the effects of that entry.

We recommend all reconciliations and compiled documentation that supports account balances be reconciled to the general ledger accounts.

UNRECORDED ACCOUNTS PAYABLE

Our testing of expenditures made after June 30 disclosed unrecorded accounts payable of $246,488. Adjusting journal entries were made to record the liabilities.

Good business practices and generally accepted accounting principles require accounts payable to be recorded as of June 30 for all amounts for with the College received the benefit from the goods or services on or prior to year end.

We recommend the College establish procedures to identify all accounts payable and the accounting department record all liabilities as of each year end.

COLLEGE OF CHARLESTON
CHARLESTON, SOUTH CAROLINA

PRIOR AUDIT FINDINGS
JUNE 30, 2000

We performed an audit similar in scope for the year ended June 30, 1999 and our report thereon was dated September 24, 1999. The report contained five material reportable conditions and five other weaknesses.

Management has taken adequate corrective action for all of the findings and weaknesses described in the management letter comments in the prior report except we have repeated the finding regarding the College's failure to reconcile payroll related liability accounts.

MANAGEMENT'S RESPONSE

The following comments are being offered in response to the findings reported in the auditor's management letter for Fiscal Year 1999-2000. The Administration of the College of Charleston is pleased that the auditor's work confirmed that the College continues to operate within its resources and in compliance with all Federal and State laws and regulations. Furthermore, it is a source of great pride to know that after a professionally conducted and comprehensive examination by the auditors, the financial statements of the institution were determined to present fairly to the reader the financial integrity and solvency of the College of Charleston.

A. Material Reportable Conditions

Payroll Related Liability Accounts Not Reconciled

The Human Resources department took corrective action to reconcile carrier bills after the audit findings from the previous fiscal year. However, the second step of reconciling each liability account was not in place.

An outside consultant has been retained to document the required reconciliation and to establish standard procedures to ensure that carrier bills and the General Ledger are reconciled in the future.

A complete analysis of the policies and procedures has been undertaken in both Human Resources and the Controller's Office and additional internal controls are in place to resolve this issue.

Cash and Payroll Liability Reconciliation

An incorrect entry was made in recording the required audit adjustments of the previous fiscal year which caused an out of balance situation in the cash and payroll liability accounts. All bank accounts, State Treasurer, and Comptroller General accounts are reconciled monthly but cash in total is reconciled to the General Ledger only at year end. It should be noted that this condition did not affect actual cash in the bank accounts or State Treasurer accounts, but only the amount shown on the General Ledger.

Additional procedures for monthly reconciliation of all cash accounts to the General Ledger have been put in place.

Unrecorded Accounts Payable

Three of the vouchers, involving 70% of the amount, or $173,400, cited as unrecorded accounts payable were for invoices to be paid from capital project accounts. The invoices had not been approved for payment by the Physical Plant and were in dispute as to the amount owed. Capital project accounts are not closed to the General Ledger at year end but remain open for the duration of the project.

It is management's opinion that this finding should not be considered a material weakness but, in fact, should have been included as a contingent liability in the notes to the financial statements.